A new way to think about economical growth: stop attracting companies, start attracting entrepreneurs

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The european experience: a wrong growth model

The current global economical crisis has shown how the growth model of many european countries such as Italy, Spain, Greece and great part of the European Union is not sustainable in the long term. These countries has been growing for several decades using the public debt to fund infrastructures or giving subsidies to build factories and they have not been able to use the resources of the growth in a looking forward way, preferring to invest the public expenditure to low the unemployment rate in the short term rather than in education, fight against corruption, criminal organization and tax evasion.

Italy, maybe the best example, after the Second World War has invested the money from the Marshall Plan in reconstructing the country and building infrastructures; after this prosperous period of growth due to the United States financial help, Italy has been growing mainly using the resources coming from the public debt, becoming a developed and industrialized country. However, not much money has been spent to improve the public education and the system of monopoly of many public companies is now collapsing under the weight of global competition and the 130% national debt. Spain has been on a similar way after the end of Franco's dictatorship.

The previous considerations do not mean that a high percentage of public expenditure on the GDP is in any case an obstacle for the long term growth: the problem is what that expenditure is used for.

Countries such as Sweden or and Norway are able to grow and to overcome the crisis even if their rates of public expenditure are high: this is because these countries has invested in education, in sustainable social protection systems and in entrepreneurs; this means that Sweden does not invest in companies to build factories, but it invests in young people to create new business.

Considering the factors stated before, it is easy to understand why many european countries, especially in South Europe, are now not able to grow anymore; now that there are competitors such as China, such countries need to convert their economies from secondary into tertiary sector-economies, but this is possible only if the human capital is ready for that, and currently it is not.

According to Dominic Burton, global managing director of McKinsey & Company "One of the biggest problems facing the world in 2013 is the prolonged—and seemingly intractable—crisis of youth unemployment. Put simply, too many young people lack employable skills in a world that has too few skilled workers(…)In a recent McKinsey survey of more than 4,500 young people, 2,700 employers and 900 education providers across America, Brazil, Britain, Germany, India, Mexico, Morocco, Saudi Arabia and Turkey, some 40% of employers reported that they struggle to fill entry-level jobs because the candidates have inadequate skills. Almost 45% of young people said that their current jobs were not related to their studies, and of these more than half view the jobs as interim and are looking to leave. Without a remedy for this mismatch of demand and supply, we forecast that by 2020 there will be a global shortfall of 85m high- and middle-skill workers for the labour market."(see references)

Today's challenge for developing countries

Considering the failing example of many european developed countries, the developing countries in both Asia and South America have to choose a different approach for their long term economic policies in order to avoid the south european mistakes.

In Asia, China has been able to win successfully the problem of hunger through improvement in education and agriculture, but now needs to open its markets to competition and to drive the growth in the tertiary sector if it wants to continue to grow; recently, the chinese growth rates declined and they are expected to low even more in the future. China is maybe a perfect place to open a factory, and this factor has been its main driving force until now, but is it the right place to start-up a new business? How long can China continue to grow in this way?

The problem that are facing now the developing countries can be described by the following question: Is it better to continue attracting companies through subsidies to have more jobs today, or is it better to focus on attracting entrepreneurs in order to build today the base of an innovative future? Countries such as Italy, Greece and Spain choose the first option, and today results are evident through the youth unemployment rates: young people have no enough skills to find a job and factories close because of the international competition; in order to grow this countries need to pay their debts and to change many of their policies, but this can take a long time. Their policies have been based on considering GDP growth and economical development as the same thing.

If a strong GDP growth can be obtained attracting factories and consequently improving the occupation rate, the economical development means innovation and progress, for whose building factories is not enough. The previous consideration is even more critical if we look at the future trends in the production system: as technology improves and its price declines, the labour work in the production chain becomes less important; if South European countries are loosing job places today because the labour cost in China, East Europe, South East Asia and South America is much cheaper, tomorrow the today-low labour cost will be probably more expensive than a super low cost of innovative technology: the result will be probably similar to the crisis that PIGS are facing now.

This means that a long-term growth can be obtained only through development: it is better to be a country that produces innovation rather than one that has many factories. This is the main challenge of the developing countries: taking the right way for a long-term growth in a wise and looking forward development view.

Stop attracting companies, start attracting entrepreneurs

In the opinion of the author of this essay, the main factors that can deeply contribute to this goal are three. Firstly, an efficient, merit-based education system open to everybody and that represents a real opportunity for social escalation for the poorest; in the last years, Brazil has been giving financial help to children living in the favelas in order to let them go to school: that was an excellent example of fight against criminality and a looking-forward action against poverty. Secondly, free and fair competition, as the simple rules of microeconomics suggest.

Thirdly, it is necessary to think about the attractiveness of foreign investments in a different way: development is where headquarters are, not near factories; it is the time for developing countries to stop thinking about attracting companies to produce and start attracting entrepreneurs to innovate. This is a successful strategy also in the short term: “according to research supported by the Kauffman Foundation, more than one-third of job growth is due to new businesses”(see references). In oder words, being an entrepreneur-country means to be a country for entrepreneurs.

Actually, there are already some examples of the use of this approach in South America. “*Many countries have sought to create their own versions of Silicon Valley. Nearly all have failed. Yet Chile’s attempt is interesting because it exploits the original Silicon Valley’s weak spot—America’s awful immigration system. When the home of free enterprise turns away entrepreneurs, Chile welcomes them.Start-Up Chile is the brainchild of Nicolas Shea, a Chilean businessman who had a brief stint in government. The programme selects promising young firms and gives their founders the equivalent of $40,000 and a year’s visa to come and work on their ideas in Chile. Since 2010, when Start-Up Chile started, some 500 companies and almost 900 entrepreneurs from a total of 37 countries have taken part.(…)<<I saw smart people being kicked out of the United States because they couldn’t get visas to stay>> he says. <<And I thought: why not bring some of them to Chile?>>(…)Like several other countries, including Brazil and Mexico, Chile wants to establish itself as the entrepreneurial hub of Latin America.*”(see references).

The previous example is the one that shows best what the development policies need to be focused on. Developing entrepreneurship is the only way to build an economic system able to overcome future crisis and foreign competitors; countries need to think in order to become leaders of innovation and not followers. The challenge is not only attracting foreign entrepreneurs, but also making everyone able to acquire the resources and the know how to start up a business. Entrepreneurship means that everybody can be the author of its own future and to develop it only a long term policy that needs to be implemented starting from now can success.

South Europe-countries has preferred to invest in attracting companies in order to have more job places, but now they are not able to grow anymore such as they were before and, most of all, they are collapsing because of the global competition that will always be stronger and that they can not face. Now it is the turn of South America, Asia and maybe also Africa could use the entrepreneurship as a driving force for growth. Today's decisions will be the drivers of tomorrow; one possible future already exists in Italy, Spain and Greece; the other one has just to be discovered.

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